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Controlled Substance Monitoring Program

Delran Facility Overview

November 6, 2008

Dan Opens presentation

Meeting Agenda

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- **Introduction of Meeting Attendees**
- **Introduction of Delran CSMP Oversight Team**
- **Delran Organizational Chart**
- **Distribution Center Overview:**
  - Market Overview
  - Operational Facts
  - Inventory Facts
- **CSMP Components**
  - CSMP Overview and Mission
  - "Know your Customer"
  - Monitoring Orders Daily
  - Establish three Tiered Process for Escalation of Concerns
  - Record Retention
  - Training
  - Security

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Dan Slide
Introduce the agenda to the participants

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McKesson Meeting Attendees

Delran Team:
- **Brian Ferreira**: Vice President, General Manager, Delran
- **Dan Montreuil:** Director of Operations, Delran
- **Beth Robertson:** Assistant DCM, Dayshift Operations, Delran
- **Bill Curcio**: ARCOS Lead, Delran

Region/ National Support:
- **Chris Smith:** Vice President, Distribution Operations, NE Region
- **Michael Oriente:** Director Regulatory Affairs, NE Region
- **Bill Mahoney:** Director Regulatory Affairs, South Region
- **Dave Gustin:** Director Regulatory Affairs, NC Region

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All participants will introduce themselves – highlighting their titles and their McKesson experience

Delran Management/ CSMP Oversight

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Brian Ferreira
VPGM
22 Years McKesson/ Pharma

OPS	Sales: Retail	Sales: Hospital
■ Dan Montreuil Director of Operations 20 Years ■ Beth Robertson Asst. DCM: Days 3 Years ■ Lon Mietka Asst. DCM: Nights 23 Years ■ Bill Curcio ARCOS Team Lead 20 Years	■ Gene Cavacini Vice President of Sales 6 Years	■ Michelle Harris Vice President of Sales 12 Years

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Slide 14

Our strategy is very simple.

Enhance the core, extend the business and expand our markets are the fundamental strategies. The simplicity by which, we will address the long and short term of this business.

The majority of our efforts and increasingly our capital investment will be spent on enhancing the core of our business. We must ensure that our existing assets are dynamic, continually refreshed and aligned with customer's needs.

These efforts will continue to strengthen the platform for sustained growth.

Bob Turiano – years of experience

Paul Shapiro-
Alex Musa –

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Distribution Center Overview

Market Overview

Mid Atlantic States

- New York City Metro, New Jersey, Eastern Pennsylvania, Northern Delaware, Northern Maryland and portions of Virginia

Sales of ~ $350M Per Month

- Sales mix in dollars: 83% Rx, 7% OTC, 10% Controls
- Sales mix in items: 77% Rx, 23% OTC, 9.5% Controls
- Sales mix by customer: 27% Hospital, 17% Independent, 56% RNA

Lines Shipped ~1,600,000 Orders Per Month

- ~1,200,000 lines are Rx
- ~110,000 lines are Controls (9% of Rx)
- ~300,000 lines are OTC

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Brian Slide

TEL-DRUG/CIGNA HORSHAM PA – 45 mil   ------ IND - MADISON AVE PHCY INC HM New York – 1 mil
LTC- PARTNERS PHARMACY CRANFORD NJ – 8 mil ------ Hosp - BETH ISRAEL New York 1 mil

Distribution Center Overview   (continued)

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Customers ~1700
  * ~265 ISMC
  * ~1270 RNA
  * ~197 Hospitals

Operational - Inventory Facts:
  * Facility is 228,500 sq feet, including mezzanine
  * 212 employees on (2) shifts
  * Approximate inventory value of $225M
  * $194MM in Rx, $13MM in OTC, $18MM in Controls

27K Items Carried in Inventory
  * 13K in Rx, 12K in OTC, 2K in Controls
  * 534 customer DEA 222 forms received per day
  * 2,542 control items 'keyed" per day

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CSMP Components - Agenda

CSMP Introduction/Mission

Know your customer

Monitor omitted orders due to thresholds met

  — TCR form

Customer Review and Escalation

"Use the Tools"

Record Retention

Training

Security

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Introduce the CSMP agenda

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"Know Your Customer" – Thresholds

Threshold Determination
- Initial customer thresholds were established using 12 month purchase history plus margin of 10%

Thresholds Set for Every Controlled Substance
- Determined by DEA base codes (Active ingredient)
- Thresholds monitored on a monthly basis
- Real-time threshold monitoring/adjustment process for:
  - ✓ Returns
  - ✓ Canceled orders

System Accumulates Doses Monthly
- By base code
- Dose units sold

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Michael Slide

Thresholds:

Chain Warehouse – Caremark – OXYCODONE 50k ALPRAZOLAM 49k HYDROCODONE 50k

CLOSED PHARMACY - PARTNERS PHARMACY OXYCODONE 144k ALPRAZOLAM 57k HYDROCODONE 0k

FED HOSPITAL NON-MILITAR – VA MED CTR O/P – PHILA OXYCODONE 170k ALPRAZOLAM 38k HYDROCODONE 44k

HOSPITAL GROUP - JOHNS HOPKINS HOSPITAL - OXYCODONE 79k ALPRAZOLAM 0k HYDROCODONE 20k

LARGE DRUG CHAIN – Rite Aids --- Avg OXYCODONE 27k ALPRAZOLAM 0k HYDROCODONE 0k

LARGE DRUG CHAIN – Targets --- Avg OXYCODONE 43k ALPRAZOLAM 0k HYDROCODONE 0k

MAIL ORDER FACILITY - TEL-DRUG/CIGNA - OXYCODONE 70k ALPRAZOLAM 49k HYDROCODONE 59k

RETAIL DRUG STORE - COVERED BRIDGE PHARMACY OXYCODONE 70k ALPRAZOLAM 0k HYDROCODONE 0k

RETAIL DRUG STORE - MANOR PHARMACY INC OXYCODONE 125k ALPRAZOLAM 36k HYDROCODONE 0k

"Know Your Customer" –
New Customer on Boarding

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Partnership between Account Managers, DC Management & Regulatory Affairs

   Independent Small & Medium Chain (ISMC)

* New questionnaire (Business type, controls dispensing history, background etc.)
* DRA approves and assigns family codes

McKesson Health Systems (MHS)

* New questionnaire (Business type – multi-point systems need a master survey)

Retail National Accounts (RNA)

* Thresholds assigned by corporate template
* Changes made via dispensing history and HQ TCR

Federal Government

* Thresholds determined by family code

McKesson Med Surg (MMS)

* Doctors vetted by MMS; threshold defaults relatively low

Dan Slide

Highlight the "Positive" aspects of the system – enhanced service by operations, closer connection,

Examples of customers available for review – NEED: (3) Typical Independent site visit Level 1 site visits / NEED: (2) New accounts site visit

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"Know Your Customer" - Site Visits

Document size, location and traffic
- ✓ Small, Medium, Large, Standard Retail, Warehouse, Light, Heavy, etc.

Is the owner a pharmacist?

What does front end look like?
- ✓ Extensive, Limited, Non-existent, HealthMart, Attractive, Dated, etc.

How many average dose units filled monthly?
- ✓ Oxycodone, Hydrocodone, Alprazolam, and Phentermine

What is the percentage of controlled drugs vs. total sales?

What is their customer base?
- ✓ Pain Patients, Hospices, Family, Single, Younger, Older, Local, Out of State, etc.

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Continue to discuss

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"Know Your Customer" - Site Visits

Which doctors does the pharmacy fill for?
- ✓ Does Pharmacist know the Doctors?
- ✓ Many, Few, Pain Specialists, Orthopods, Adjacent Hospital ER, etc.
- ✓ Who is driving the volume?...might want to swing by for a look...

Are there any Patient or Doctor Geographic Restrictions?

Any evidence of internet or mail order activity?
- ✓ Outbound Shipping, out-of-state licenses

Does the pharmacy fill many faxed scripts?

Any processes in place to prevent "doctor shopping"?

Does pharmacy take 3rd party payments (insurance)?

Has pharmacy experienced any robberies or burglaries?

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Monitoring Orders

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System monitors and blocks orders that exceed threshold

1. Scan the Controlled Substance Omit Report for "V" code omits
2. Contact the customer whenever a threshold is reached
3. Find out why the customer's order reached the threshold
   - ✓ Ordering error?
   - ✓ Change in business model or conditions?
4. Document the contact by completing the Level 1/Observation form
   - ✓ Amount of inquiry required in a Level 1 investigation can vary as appropriate to the amount and type of increase, but should always include a discussion with the customer
5. If a threshold increase is contemplated, fill out a TCR completely
6. Assess whether or not a threshold change is warranted
7. Let the customer know whether the threshold will be increased or access is blocked for the rest of the month

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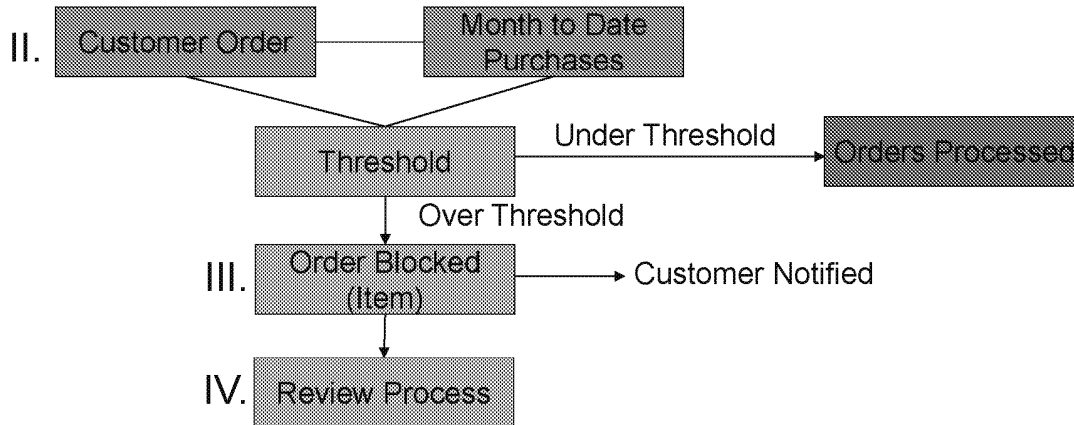Dan Slide

Highlight different reference material within packet

* Customer Invoice   -   * Omit Report

Monitoring Controlled Substances Orders

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I. Customer Purchases Accumulated Monthly
  - Dose units
  - Base code

II.

| Customer Order | | Month to Date Purchases |

Threshold — Under Threshold → Orders Processed

Over Threshold

III. Order Blocked (Item) → Customer Notified

IV. Review Process

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Simple form of explaining the process ….

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Threshold Change Request Process (TCR)

Documentation required for both TCR Processes

Change in Business: TCR Process

Emergency: TCR Process

Partnership between Sales, Operations & Regulatory Affairs

✓ Date, customer info (including DEA#), base code (e.g. oxycodone)

✓ Requested increase amount (either absolute number or percentage)

✓ Reason for the increase (what factors are driving the demand?)

Key Customer Message...Advanced Communication is Key!

Let's Avoid End of Month Emergencies.

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Point out an example of a TCR form held within their packet – highlight the collaborative effort between Operations and Sales

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Blocking Orders

System Blocks Orders That Exceed Threshold
* Specific to that base code
* Specific to registrant

No override at local level
* Requires change in threshold
* Documented threshold change request required

Customer Notification
* Alert customer approaching threshold
* Order entry systems alert customer
* Invoice notifies customer

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Review
Customer Review & Escalation

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Level 1 Review
* Threshold exceptions will trigger Level 1 Review
* Determine if the sales are approved or inconclusive
* Item blocked until cleared by DO and/or RCD

Level 2 Review
* Conducted by Regulatory Director and Local Management Team
* Conduct an interview with the customer, if appropriate
* Evaluate threshold levels and adjust if appropriate
* Item blocked until clear

Level 3 Review
* All controls blocked
* Escalation to Regional SVP, SVP of Dist Ops and VP of Regulatory Affairs
* Reported to DEA as suspicious
* Senior Management Review of Findings

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Dan Slide – Slide mainly used to set up the next 3 slides --- highlight the 3 levels
Level 1 review

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Due Diligence Tools

May include any or all of the following:

- Customer Declaration
- Site Visit/Observation
- Follow-up interview's
- Inquiries with DEA, Board of Pharmacy, Dept. of Health, etc.
- Web search
  - ✓ Internet presence
  - ✓ News or promo about customer
- Extensive background search (from Corporate Security, if needed)
- Photographs

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Training

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Warehouse Associates (39)
* All Cage and Vault Personnel - Dayshift and Nightshift
* All Receiving and Put-Away Personnel - Dayshift
* All ARCOS Personnel - Dayshift and Nightshift

Office Associates (14)
* All ARCOS Team Members - Dayshift and Nightshift
* All Office Personnel – (Inventory Control, Customer Service, Support Team)

Management Associates (23)
* All Management Team Members - Dayshift and Nightshift

Sales Associates (14)
* All Retail and Health Systems Field Representatives

Quarterly "Re-Fresh" scheduled for December 2008

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Beth Slide – point out examples of training documents held within their packet

Highlight the process --- how is it determine who is trained? What information? What documentation is used?

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Security

Physical infrastructure:

* 127 total camera's, 63 specific to the cage and vault
* Key Card access property and building
    * ✓ Additional card restriction to sensitive areas
    * ✓ Uses of Magnetic locks in conjunction with key to access cage/vault
* Chain of custody compliance
* Perimeter fencing

Associates:

* Annual background checks for all those in sensitive areas
* Random door and locker checks
* Daily vault / cage cycle counts on all prior day sales

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Beth Slide

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Dan Slide